

Before The  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Institutional Cost Contribution  
Requirement for Competitive Products

Docket No. RM2012-3

**COMMENTS OF THE PARCEL SHIPPERS ASSOCIATION**  
(April 9, 2012)

The Parcel Shippers Association submits these comments pursuant to Order No. 1108, January 6, 2012, and Order No. 1276, March 7, 2012. Order No. 1108 invites comments from interested members of the public on whether and how changes in competitive market conditions, the allocation of costs to competitive products, the number and volume of competitive products, or any other changes should impact the minimum appropriate share of institutional costs of the Postal Service that should be provided by competitive products. Order No. 1108 at 3. A 2007 Commission review determined that competitive products, collectively, should contribute a minimum of 5.5 percent of the institutional costs of the Postal Service annually. Order No. 43, October 29, 2007, ¶¶ 3040-47; Rule 3015.7(c).

PSA recommends the Commission make no change in the appropriate share requirement at this time.

In Order No. 1276, in response to PSA's Motion requesting extension of the comment period,<sup>1</sup> the Commission said:

The PAEA, however, specifically authorizes the Commission to revise its competitive product rules from "time to time." Thus, the Commission is not limited to reviewing competitive products' contribution at 5 year intervals.

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<sup>1</sup> Motion of the Parcel Shippers Association to Extend the Period for Preparing Initial and Reply Comments, February 24, 2012, at 1 (PSA Motion).

The Commission's ability to conduct reviews more frequently than every 5 years is key to providing parties and the Commission with an appropriate mechanism to deal with relevant circumstances that may cause the Commission to change its rule regarding the minimum required contribution to institutional costs for competitive products. These relevant circumstances could include resolution of the potential uncertainties discussed by PSA and the Postal Service. If such relevant circumstances materialize, interested parties may petition the Commission to initiate such a rulemaking, or the Commission may act independently to initiate another rulemaking. [citations omitted].

Order No. 1276 at 4-5.

The PSA Motion pointed to data that PSA believes shows that the Commission successfully balanced applicable risks when it initially established the level of the appropriate minimum contribution for competitive products at 5.5 percent. PSA Motion at 3. PSA also argued that there is no urgency that requires the Commission to change the appropriate share requirement now as the Postal Service does not appear to be underpricing its competitive products to gain market share. Additionally, the passage of time will eliminate some uncertainty regarding the Postal Service's current difficult financial situation and permit the Commission to make a better-informed decision. *Id.* at 1, 5. The Direct Marketing Association, Inc. (DMA) and the Association for Postal Commerce (PostCom) filed comments essentially supporting the PSA Motion as did the Postal Service.<sup>2</sup> The Postal Service also offered support for maintaining the current 5.5 percent requirement. *Id.* at 2-6.

In its motion PSA discussed relevant circumstances that may change and that will bear directly on the question of the appropriate share of institutional costs that should be borne by competitive products. These circumstances include:

- The effect of the Postal Service's proposed mail processing network rationalization initiative on attributable and institutional costs,

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<sup>2</sup> Comments of the Direct Marketing Association, Inc. in Support of the Parcel Shippers Association Motion for Changes in Procedural Schedule, February 28, 2012 (DMA Comments) at 1; Comments of the Association for Postal Commerce in Support of the Motion of the Parcel Shippers Association for Changes in the Procedural Schedule, February 29, 2012 (PostCom Comments) at 1; Answer of the United States Postal Service to Parcel Shippers Association Motion, March 2, 2012 (Postal Service Response) at 1-2.

- The significant and apparently ongoing changes in mail mix that impact, arithmetically, the relative contribution share of competitive and market dominant products,
- The significant effect of the postponement of or failure to make retiree benefit and other statutorily required payments on the relative shares of contribution,
- The impact of (1) the recently approved transfer of products (more than one billion lightweight packages annually) to the competitive side (e.g. Parcel Select Lightweight, First-Class Commercial) and (2) the publicly discussed desire of Postal Service management to transfer additional products to the competitive side, and
- The business model changes being sought by the Postal Service.

PSA Motion at 6.

The appropriate share requirement is an important safeguard against unfair competition. It is important to get it right. As the Commission noted:

Given a very competitive marketplace where the Postal Service's market share is relatively small, setting the contribution level too high could adversely affect the Postal Service ability to compete. On the other hand, establishing a markup that is too low could give the Postal Service an artificial competitive advantage.

Order No. 1108 at 2.

When more is known about how the above circumstances will play out and how they affect the relative amounts and shares of institutional costs borne by competitive and market dominant products, it may be appropriate to adjust to the new circumstances. For example, the current 5.5 percent requirement was grounded in historical experience. Perhaps the relevance of that experience will diminish. The existing rule also requires that competitive products contribute a fixed or constant percentage of institutional costs. Perhaps a more scalable or proportional requirement would better suit a more volatile postal market place of the future. But for the time being no change is necessary or desirable.

With the reassurance that the Commission may revisit the appropriate share requirement at any time in the future, notwithstanding the statutory requirement for a review "every five years,"<sup>3</sup> PSA is comfortable renewing its argument that now is not the time to change the existing requirement.

Respectfully submitted,

/s/  
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